

TO: [REDACTED]  
FROM: [REDACTED] 25X1A9a  
SUBJECT: Inflation.

During the next two years inflation will be the Hydra of economic endeavour in the West. Fed with deficit financing by the U. S. government, and coddled in certain Western European countries, this monster will grow with rapidity. France, the low countries, the U.K. and Japan now appear particularly vulnerable to its insidious effects. If inflationary tendencies become strengthened in these few countries and in the U.S., the entire economy of the West will be swept into a rising spiral of prices and costs. Rearmament will be retarded seriously - in places, reversed - by reduced productive efficiency and lowered incentives; by frightened distrust and numerous strikes; by materials shortages; and by other dislocations which are always a part of inflation.

*In Central & Southern Europe entire national rearmament programs will be jeopardized by problems with labor, and governments may fall on the inflation issue.*